

Why Client Retention is ten times more important than Sales!

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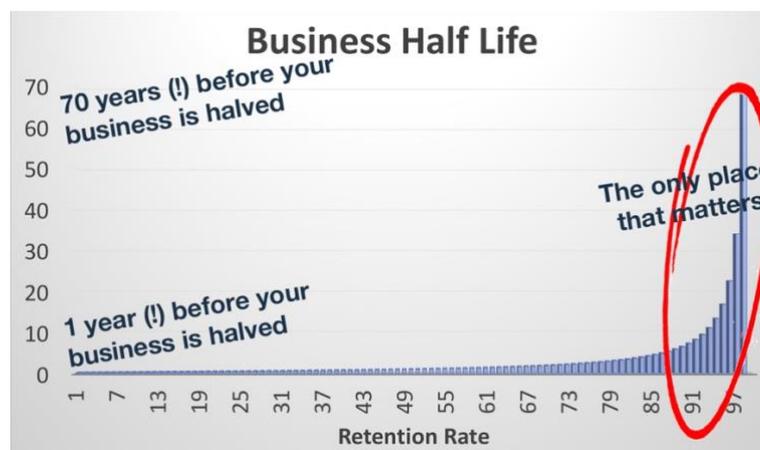
How to get the stress out of your organization and make millions more than you are doing now.

I have had a lot of people requesting me to explain in more detail how important client retention really is to an organization. In this article, I will hand over some insights that will change your view on client retention forever.

But first answer these two questions to the best of your ability, and don't read on until you have an explicit idea about this in your head:

1. "What is a good client retention rate?" (Stop and think on it for just ten seconds)
2. "Is a business that in 6 years' time, loses 50% of its clients, in good shape? If not, how many years would you consider to be acceptable?" (Stop and think for another ten seconds).

This second question is introducing you to a business metric called 'Business Half Life (BHL)'. This is the time in which your business is halved when no new business would come in. It's an effective way of presenting you with the impact of the retention/attrition rate in your organization. It gives you a better sense of the volatility/stability of your business. This might be helpful because retention rates easily mislead you with the numbers always being at the higher end. A retention rate of 90% might sound ok to you, but losing 50% of your business in just 6.6 years is a bit more shocking, isn't it? But it is exactly the same! Take a look at the graphs below.



It also shows you that the only place where client retention matters, is the place above 90% ! And that each percent has an enormous impact on the BHL. 90% would be the absolute minimum. At that point, your BHL is 6.6 years and your company would experience a lot of problems. Not only the out-pouring business, but what this leads to: the damage to your reputation in the marketplace, the enormous sales costs to replace the lost business, the low profits on the new contracts by high implementation costs, the margin erosion because of high competition and the need to get the business in and the pressure on your people to do all this extra work just to keep the same amount of turn-over.



Now imagine your organization with a BHL of 20 years..... Can you think of the difference that would make on all of the things I just mentioned? You will be working in a much more stable organization. Imagine how that would feel to your employees and how much time you could spend on providing value to your client base. And how much less depended you would be of new business coming in and how you can work on only the best business coming in. And how much it would affect the profit of your organization. One or two percent increase in client retention could easily lead to 5 to 8% increase in profit.

So, the way to think about client retention is not on a scale of 1 to 100%, but on a scale of 90% to 100%. And on this scale, you should think in decimals, the same as you would in thinking of your profit!

Or you can use the BHL metric, if you indeed find retention rate too misleading. Too much leading to complacency. Just send me an [email](#) or leave a comment below and I'll send you the table and/or formula to translate Retention Rate into BHL. It's a formula just as in compound interest. Each year you lose just a little less business, but only because the business in total has gotten less.

So, what is a good client retention rate? Companies that set targets lower than 100% for client retention have higher results than companies that don't set targets because they don't plan on losing any clients. Setting a target and measuring results conveys your priority in this matter in an effective way to your organization.

But any retention rate under 97% I would consider a business issue of the highest priority.

Especially for service providers working with large accounts, it is the single most important thing leading to profitable growth of your organization.

Or in terms of Business Half Life, working on a stable client base would be my priority. When you ask what a realistic goal would be, I would say 97%. And I would add that it is not only realistic, but anything less will lead you to get so bogged down in the thick of things, there will be serious and damaging stress on your organization.

Yours for 100% client retention.

Marco Reijntjens

PS. Please feel free to take me up on my offer I made in my previous article to get a free copy of our landmark book “What your clients won’t tell you and your managers don’t know”. It’s a limited time offer. [Just click here.](#)

